

GRAYS HARBOR COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Public Funds Were Misappropriated From The Grays Harbor County Clerk's Office And Public Records Were Falsified

On November 4, 1996, the Grays Harbor County Clerk notified the Office of the State Auditor of an apparent misappropriation of funds in the county clerk's office. Our audit of the financial records of the county clerk's office revealed that at least \$410 in public funds was misappropriated by a deputy clerk during the period of October 1, 1996, through October 31, 1996. There were no federal funds involved in this case. These funds were misappropriated as described below.

- a. Recorded manual cash receipts were taken by the deputy clerk. Three manual cash receipts issued during the daily close-out of the cash register were not immediately recorded on the cash register when cash receipting activity resumed. One of these transactions was a restitution payment that was subsequently recorded three days after the original transaction occurred. The remaining funds from the other two transactions were simply taken. In addition, our review determined that all manual receipts issued by the clerk's office prior to September 16, 1996, had been prematurely destroyed. The net amount of loss from this method was \$290; however, \$50 of this amount was subsequently returned.
- b. Unrecorded cash receipts were taken and accounting records were falsified by the deputy clerk. One filing fee transaction was inappropriately waived without a court order supporting this action. The customer actually made this payment by money order; however, the deputy clerk altered this negotiable instrument and cashed it. The amount of loss from this method was \$120.

On December 4, 1996, the deputy clerk stated to a Grays Harbor County Sheriff's Detective that she had misappropriated public funds from the county during her period of employment. She resigned her employment with the clerk's office on December 12, 1996.

RCW 42.20.070 states:

Misappropriation and falsification of accounts by public officer. Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state

government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town or any school, diking, drainage, or irrigation district, who . . .

(1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or

(4) Shall wilfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money by him as such officer when it is a duty imposed upon him by law to pay over and account for the same, shall be punished by imprisonment in a state correctional facility for not more than fifteen years.

The following internal control weaknesses allowed these losses to occur and not be detected by county management officials in a timely manner.

- a. Official prenumbered cash receipt forms were not used. Generic cash receipt forms were used to record cash collections from customers; however, these forms provide no control over revenue transactions because they can be obtained from any office supply store.
- b. Cash receipt books were improperly maintained. For example, some receipt forms had been omitted and left blank in the book, all copies of several receipts were missing, and all copies of voided receipt forms were not retained on file. In addition, cash receipt books were destroyed once the book had been completed.
- c. Cash receipts were not properly accounted for and controlled. There was no controlled transfer of funds when cash receipts from transactions were passed from one employee to another. For example, while one employee issued a manual cash receipt for cash collections, another employee actually recorded the transaction in the cash register.
- d. There was no supervisory review to verify that all funds collected from transactions recorded in the manual cash receipts book were subsequently entered in the cash register. In addition, manual cash receipt transaction numbers were not cross-referenced in the cash register's note field.

- e. There was no supervisory review of noncash credit transactions, such as waived filing fees, to ensure that these high risk transactions were properly approved and supported by appropriate documentation.

Grays Harbor County has a personnel dishonesty bonding policy for all employees. However, this loss was not covered by the bonding company because it was less than the deductible provision of the policy and the policy has a provision excluding the recovery of related audit/investigation costs.

We recommend Grays Harbor County seek recovery of the misappropriated \$360 and related audit/investigation costs from the deputy clerk. We further recommend the Washington State Office of the Attorney General and the Grays Harbor Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and the State Auditor, as directed in RCW 43.09.260.

We also recommend the county review overall accounting controls over cash receipts in the county clerk's office, correct the weaknesses outlined above, and implement an effective system of internal controls designed to ensure the protection of public assets.

2. South Beach Park And Recreation District Should Comply With Applicable State Laws And Regulations

During our annual audit of Grays Harbor County, several issues came to our attention concerning South Beach Park and Recreation District. The following improprieties were noted:

- a. District revenues were being passed to a nonprofit organization, rather than being deposited with the district's treasurer, Grays Harbor County. In addition, the nonprofit organization paid for district expenditures rather than the district processing them through the Grays Harbor County warrant system.
- b. Minutes for several commission meetings are either missing or were not prepared.
- c. There are no official, signed copies of minutes.
- d. Accounting records are missing or were never created, including cash receipting and expenditure records.
- e. Vague, oral agreements exist with nonprofit organizations, whereby the non-profit organizations manage, maintain and/or repair district assets (specifically the Grayland Community Hall) in exchange for free use of the assets. No formal contract or agreement exists which outlines specific consideration or duties to be performed by each party. Also, there are no references to a time period for the agreement.

The Washington State Constitution Article XI, Section 15 states:

DEPOSIT OF PUBLIC FUNDS. All moneys, assessments and taxes belonging to or collected for the use of any county, city town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depositary to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 42.32.030 requires:

The minutes of all regular and special meetings except executive sessions . . . shall be promptly recorded and such records shall be open to public inspection.

RCW 40.14.070 states in part:

. . . Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee.

The State Archivist and the State Auditor under authority of RCW 40.14.070, have established a records retention schedule for municipal corporations which requires minutes to be held permanently, receipts to be held for six years, and bank records to be held until

after the audit.

RCW 36.69.150 states:

The county treasurer of the county in which the district shall be located shall be the treasurer of the district, and expenditures shall be made upon warrants drawn by the county auditor pursuant to vouchers approved by the board of park and recreation commissioners.

Good business practices dictate that all agreements and contracts be formally drawn up, approved and signed, with all terms and dates specifically outlined. This helps ensure that assets are adequately safeguarded.

The district was unaware of the records retention requirements, and of the requirement for official, signed minutes.

The lack of minutes and other records prevents the public from having access to the complete information of the district's activities and increases the risk that error and irregularities will not be detected in a timely manner. In addition, because of this lack of records, we were unable to assure ourselves that the financial records obtained include all transactions of the district.

By not processing all transactions through the county, the district may be bypassing the approval process of the commissioners. Further, there is no way to ensure that all moneys are accounted for and spent correctly.

We recommend the district maintain official copies of minutes for all commission meetings and retain financial records in accordance with RCW 40.14.070.

We further recommend the district deposit all revenues with the county treasurer and process all expenditures through the county auditor.

We also recommend the district enter into only formally written and signed agreements and contracts, with all terms and dates specifically stated.